

**LAFAYETTE NEIGHBORHOODS'  
ECONOMIC DEVELOPMENT  
CORPORATION  
Lafayette, Louisiana**

**Financial Report  
Years Ended April 30, 2003 and 2002**

## TABLE OF CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5-8
INTERNAL CONTROL AND COMPLIANCE	
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	10-11
Summary Schedule of Prior Year Endings	12
Schedule of Findings and Questioned Costs	13-14
Management's Corrective Action Plan for Current Year Findings	15



(A Corporation of Certified Public Accountants)

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Lafayette Neighborhoods' Economic  
Development Corporation  
Lafayette, Louisiana

We have audited the accompanying statements of financial position of the Lafayette Neighborhoods' Economic Development Corporation (LNEDC) (a nonprofit corporation) as of April 30, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lafayette Neighborhoods' Economic Development Corporation as of April 30, 2003 and 2002, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### Other Locations:

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In accordance with Government Auditing Standards, we have also issued a report dated June 30, 2003 on our consideration of the Lafayette Neighborhoods' Economic Development Corporation's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grants.

*Darnall, Sikes & Frederick*

A Corporation of Certified Public Accountants

Lafayette, Louisiana

June 30, 2003

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Statements of Financial Position  
April 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash and cash equivalents	\$ 238,411	\$ 246,211
Loans receivable (net)	646,389	597,282
Accrued interest receivable	2,468	5,399
Other receivables	82,897	48,197
Due from affiliate	10,000	10,000
Prepaid expenses	<u>1,200</u>	<u>2,400</u>
 TOTAL CURRENT ASSETS	 <u>\$ 981,365</u>	 <u>\$ 909,489</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ -	\$ 608
Due to affiliated organization	<u>102,244</u>	<u>101,325</u>
 NET ASSETS		
Permanently restricted	<u>879,121</u>	<u>807,556</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 981,365</u>	 <u>\$ 909,489</u>

See independent auditor's report and notes to financial statements.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Statements of Activities  
Years Ended April 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
PERMANENTLY RESTRICTED NET ASSETS		
Revenue:		
Governmental grants	\$ 87,500	\$ -
Interest:		
Loans	31,493	39,459
Investments	798	1,880
Other	<u>2,852</u>	<u>12,082</u>
Total support and revenue	<u>122,643</u>	<u>53,421</u>
Expenses:		
Support services -		
Management and general	<u>51,079</u>	<u>146,762</u>
(Decrease) increase in permanently restricted net assets	71,564	(93,341)
Net assets, beginning	<u>807,557</u>	<u>900,898</u>
Net assets, ending	<u>\$ 879,121</u>	<u>\$ 807,557</u>

See independent auditor's report and notes to financial statements.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Statements of Cash Flows  
Years Ended April 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Decrease) increase in net assets	\$ 71,564	\$ (93,341)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in loans receivable	(49,107)	174,828
Change in other receivables	(34,700)	4,899
Change in accrued interest receivable	2,931	1,315
Change in prepaid expenses	1,200	3,600
Change in accounts payable	(608)	58
Change in due to affiliated organization	<u>920</u>	<u>(872)</u>
Net cash provided (used) in operating activities	<u>(7,800)</u>	<u>90,487</u>
Net increase (decrease) in cash	(7,800)	90,487
CASH AND CASH EQUIVALENTS, beginning of year	<u>246,211</u>	<u>155,724</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 238,411</u></u>	<u><u>\$ 246,211</u></u>

See independent auditor's report and notes to financial statements.

# LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

## Notes to Financial Statements

### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The Lafayette Neighborhoods' Economic Development Corporation (LNEDC) is a non-profit corporation organized under the provisions of the Cooperative Economic Development Law of the State of Louisiana. The LNEDC operates as a component unit of the Lafayette Consolidated Government who provides funding to the program.

#### Nature of Activities

The LNEDC was organized to help alleviate conditions of economic distress in the City of Lafayette's low and moderate-income neighborhoods by stimulating greater private capital investment in these target areas. To accomplish this goal, the LNEDC provides financing to new and expanding small businesses in Lafayette. The organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

#### Significant Accounting Policies

##### A. Loans

Loans are stated at principal amounts outstanding as of the statement of financial position date, less the allowance for possible loan losses.

##### B. Allowance for Possible Loan Losses

The allowance for possible loan losses is maintained at a level considered adequate by management to absorb potential losses. The allowance is increased by provisions charged to program expenses and reduced by net charge-offs. The Corporation makes continuous credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, and other relevant factors in determining the adequacy of the allowance.

##### C. Expenses

Revenue and expenses are recognized on the accrual basis.

##### D. Statement of Cash Flows

For purposes of the statements of cash flows, the organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.



# LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

## Notes to Financial Statements

### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### E. Uses of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### NOTE 2 LOANS

Loans receivable are comprised of loans to local business owners in a specific geographical area. These loans were made for working capital, debt refinancing, and fixed asset acquisition. Collateral is comprised of chattel mortgages on business equipment and collateral mortgages on real estate. Interest is accrued on outstanding loans from the date of the last principal payment.

The following summary reflects activities in the loan accounts for the years ending April 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Balance, beginning	\$ 719,020	\$ 984,043
Loans made	137,500	123,900
Payment received	(28,813)	(173,948)
Loans written off	<u>(67,007)</u>	<u>(214,975)</u>
Balance, ending	<u>\$ 760,700</u>	<u>\$ 719,020</u>

The following is an analysis of the allowance for loan losses:

	<u>2003</u>	<u>2002</u>
Balance, beginning	\$ 121,738	\$ 211,933
Loans written off	(67,007)	(214,975)
Increase in provision for loan losses	<u>59,580</u>	<u>124,780</u>
Balance, ending	<u>\$ 114,311</u>	<u>\$ 121,738</u>

# LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

## Notes to Financial Statements

### NOTE 3 COMPENSATION OF BOARD OF DIRECTORS

Members of the Board of Directors were not paid per diem or other compensation during the years ended April 30, 2003 and 2002.

### NOTE 4 RELATED-PARTY TRANSACTIONS

The Sterling Grove Housing Development, Inc. has the same Board of Directors as LNEEDC. During the year ending April 30, 1992, Sterling Grove Housing Development, Inc. received approval for a maximum \$1,296,300, Department of Housing and Urban Development, Section 202 loan to construct a 36-unit elderly housing complex. LNEEDC is the sponsor of this housing project.

During the year ended April 30, 1999, LNEEDC and the Lafayette City-Parish Consolidated Government (LCPCG) entered into a revised grant agreement. The agreement calls for the LCPCG to provide \$200,000 to LNEEDC to be used for loans and an additional \$17,000 to be used for administrative purposes. Additionally, this agreement allows LNEEDC to retain 100% of the annual interest earned on loans and deposits to be used for administrative costs which are in direct support of CDBG, eligible economic development activities.

LNEEDC, as of April 30, 2003 and 2002, has a receivable in the amount of \$10,000 from Sterling Grove. LNEEDC also paid Sterling Grove \$1,200 and \$3,600 for the years ended April 30, 2003 and 2002, respectively, for rental of office space. In addition, there are balances of \$1,200 and \$2,400 in prepaid rent to Sterling Grove at April 30, 2003 and 2002, respectively.

### NOTE 5 CONCENTRATION OF CREDIT RISK

The Organization provides financing to a diversified group of businesses located primarily in the Lafayette area. This assistance is provided based on an evaluation of each customer's financial condition, business knowledge, sufficiency of collateral, etc. Credit losses, upon occurrence, are provided for within the financial statements.

### NOTE 6 UNINSURED DEPOSITS

LNEEDC maintains its cash deposits in high quality financial institutions. Cash balances may, at times, exceed FDIC insurance coverage. At April 30, 2003 and April 30, 2002, there were no uninsured deposits.

# LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

## Notes to Financial Statements

### NOTE 7 DUE TO AFFILIATED ORGANIZATION

During the year ended April 30, 1997, LNEDEC entered into a joint venture with the Downtown Development Authority (DDA) to establish a low interest loan fund administered by LNEDEC to assist with exterior renovations of commercial buildings in the downtown area. LNEDEC contributed \$35,000 and DDA contributed \$100,000. These funds are restricted for loan purposes only. Upon dissolution of the Facade Grant Program, the \$100,000 will be paid to DDA as well as any interest earned on loans made, prorated between LNEDEC and DDA. Included in the balance sheet under the captions "Other Receivables" and "Due to Affiliated Organization," are receivables and payables relating to this program.

### NOTE 8 REAL ESTATE TRANSACTION

During the year ended April 30, 1994, the Organization was the recipient of a donation of real estate from the State of Louisiana. LNEDEC subsequently sold the property and received \$50,000 cash and a 15-year, six-percent promissory note for \$1,198,000 (which is subordinated to a construction mortgage obtained for renovations). The intent of the parties is that the buyer will pay accrued interest annually to the extent of surplus cash from operation of the property (after all operating expenses, debt service obligations, distributions required to be made to the purchaser of limited partnership interests and reasonable reserves). Any unpaid interest shall be accrued and deferred; but not compounded. Upon maturity of the note (March 1, 2009) LNEDEC will receive a donation of the property as payment of the outstanding balance of its mortgage and accrued interest receivable. In accordance with FASB 66, Accounting for Sales of Real Estate, recognition of the profit on the sale of property should be reported when (1) the collectibility of the sale price is reasonably assured and (2) the earnings process is virtually complete. Since collectibility of the entire sales price is questionable, gain on the sale of property has been calculated based on the difference between LNEDEC's basis in the property, the fair market value at the date of donation (\$45,900), and the cash payment received (\$50,000). For the years ended April 30, 2003 and 2002, no payments were received.

## **INTERNAL CONTROL AND COMPLIANCE**



(A Corporation of Certified Public Accountants)

Independent Auditor's Report on Compliance and  
On Internal Control over Financial Reporting  
Based on an Audit of Financial Statements Performed  
In Accordance with Government Auditing Standards

The Board of Directors  
Lafayette Neighborhoods' Economic  
Development Corporation  
Lafayette, Louisiana

We have audited the financial statements of the Lafayette Neighborhoods' Economic Development Corporation (LNEDC) (a nonprofit corporation), as of and for the year ended April 30, 2003, and have issued our report thereon dated June 30, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the LNEDC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards, and which is described in the accompanying schedule of findings and questioned costs as item 03-1.

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### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LNEDC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect LNEDC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 03-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure over financial reporting would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above as 03-2 is a material weakness.

This report is intended for the information of the Board of Directors, management and the Louisiana Legislative Auditor and should not be used by anyone other than those specified parties.

*Darnall, Sikes & Frederick*

A Corporation of Certified Public Accountants

Lafayette, Louisiana  
June 30, 2003

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Summary Schedule of Prior Year Findings  
Year Ended April 30, 2002

ML 02-1 Finding: Incomplete Loan Files

Status: This finding is unresolved. See current year finding 03-1.

ML 02-2 Finding: Ineligible Legal Fees

Status: This finding has been resolved.

# LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

## Schedule of Findings and Questioned Costs Year Ended April 30, 2003

### Part 1: Summary of Auditor's Results

#### FINANCIAL STATEMENTS

##### Auditor's Report - Financial Statements

An unqualified opinion has been issued on the Lafayette Neighborhoods' Economic Development Corporation's (LNEDC) financial statements as of and for the year ended April 30, 2003.

##### Reportable Conditions - Financial Reporting

One reportable conditions in internal control over financial reporting was disclosed during the audit of the financial statements, and is shown as 03-2 in Part 2 and is considered a material weakness.

##### Material Noncompliance - Financial Reporting

One material instance of non-compliance was disclosed during the audit of the financial statements, and is shown as item 03-1 in Part 2.

#### FEDERAL AWARDS

This section is not applicable for the fiscal year ended April 30, 2003.

### Part 2: Findings Relating to an Audit in Accordance with Government Auditing Standards

#### 03-1 Finding: Incomplete Loan Files

LNEDC has a standard checklist for loans which details the documentation required on each loan. This checklist is completed annually; however, in our review of the loan files we found that various required information was not on file for some borrowers.

The LNEDC Revolving Investment and Loan Fund is designed to provide financing in economically sound business enterprises. The creation/retention of jobs to be made available to low and moderate income individuals is a requirement of receiving a loan. In our review of loans made during the year we noted no documentation in support of that requirement. Accordingly, LNEDC administration should document the creation/retention of jobs prior to making a loan. LNEDC should also continually monitor loan recipients for proof of job creation/retention by documenting interviews with business owners and employees. During the year under audit, there were no meaningful monitoring reports noted.



## LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

### Schedule of Findings and Questioned Costs Year Ended April 30, 2003

During the course of our audit, we noted that required submissions and reports required to be filed with the Lafayette Consolidated Government had not been filed timely or in some cases not filed at all.

#### Recommendation:

We recommend the LNEDEC perform a thorough examination of the outstanding loan files and determine if the required documentation is on file. For those loans which lack specific documentation, LNEDEC should obtain the necessary information, also, LNEDEC should review the loan files subsequent to issuance, preferably annually and also perform monitoring procedures on the loan's anniversary date, to ensure that documentation is current for all information required. Additionally, required reports should be filed timely with the Lafayette Consolidated Government as required.

#### 03-2 Finding: Loan Quality

Noted during the review of loans was the fact that LNEDEC's overall quality of the portfolio appears to have continually deteriorated as evidenced by numerous delinquent loans which ultimately result in significant bad debts.

#### Recommendation:

We recommend that efforts be improved in the review and approval process relating to prospective loans. Additionally, collection and foreclosure efforts should also be strengthened in order to limit the exposure of loss relating to uncollectible loans.

#### Part 3: Findings and Questioned Costs Relating to Federal Programs

At April 30, 2003, the LNEDEC did not meet the requirements to have a single audit in accordance with OMB Circular A-133; therefore, this section is not applicable.

LAFAYETTE NEIGHBORHOODS' ECONOMIC DEVELOPMENT CORPORATION

Management's Corrective Action Plan for Current Year Findings  
Year Ended April 30, 2003

Response to 03-1:

Incomplete Loan Files

LNEDC has contracted the services of a consultant to review existing and future loans for required documentation. Annual monitoring will be performed and reports will be submitted to LNEDC and the Lafayette Consolidated Government.

Response to 03-2:

Loan Quality

LNEDC has contracted the services of a consultant to assist with collection efforts and loss mitigation.